Compilation of Washington State Utilities Offering Retail Access or Market-Based Prices

Introduction

In October and early November 1996, the Washington Department of Community, Trade and Economic Development's (CTED) Energy Policy Group undertook a compilation of utilities that were reported as having offered retail access or market-based prices to some or all of their customers. The purpose of undertaking the compilation was to see if the group could shed any light on how a restructured retail environment might work in Washington State and the region. Since Washington has no exclusive franchises for retail service, it has been a proving ground for experiments in retail access. We believe that this compilation allows us to draw certain conclusions, which we will describe in more detail further below.

- Retail access, or "virtual access" is already occurring at a very robust level: it is not something that will only begin to occur at the turn of the century.
- Utilities and customers are to be congratulated for finding innovative ways to serve individual electric needs. The efforts undertaken demonstrate that utilities have the expertise to work with their customers and energy providers to find tailor made solutions to problems that customers are facing.
- Large industrial customers are benefiting from market-based prices disproportionately at this time. The jury is still out whether the benefits of market-based rates can realistically be passed on to remaining customer classes as part of a phased approach.
- Utilities have not generally included the cost of funding "public purposes," such as demand side management, renewables, or low income support, as part of a market-based rate package.
- There is a vast disparity among utilities in the access fees they charge their customers for access to market-based power. While some of this is an apples-to-oranges problem, there are also differences in philosophy among utilities on what constitutes basic distribution service.

Compilation Approach

CTED first decided to undertake a compilation of market based rate programs when it became apparent through news reports and other information that the number of utilities across the state that were offering market based rates was growing from a small handful to a discernible ground swell. While a few utilities began experimenting with market based rates late last year or early this year, the pace has picked up during the Fall of 1996 after publicly owned utilities finalized negotiations with Bonneville Power Administration (BPA) for diversification.

The Energy Policy Group pursued reports of programs appearing to fall into one of three categories, defined as follows:

- Direct access: under this program, the utility is only a provider of distribution service and the energy is sold directly to the end use customer by a marketer or power producer.
- "Virtual" direct access: under this program a utility sells energy to its end-use customer at a rate that is based on an actual or an indexed market cost. It then charges a separately stated distribution or access fee to cover utility costs. The utility remains the nominal seller of power. While the program is not direct access in the sense that the end use customer contracts directly with the provider, the costs are the same (except perhaps for tax implications not addressed in these comments)
- Quasi-wholesale: under this program, the utility sells power to a "wholesaler" that is in fact a subsidiary or division of the end user.

For simplicity, we generally refer to all of these programs as market-based rate programs except where it is necessary to draw distinctions. Excluded from the list are utilities that reduced their rates to particular classes based on new cost of service studies or considerations of competitiveness. While the latter group of utilities may have taken advantage of access to market to reduce rates to their customers, they did not base their rates directly on market prices, and have not unbundled the energy portion of their rates from the distribution function.

The compilation is not based on a comprehensive survey of Washington utilities, but rather on following up on press reports, testimony at legislative hearings, rate filings with the Utilities and Transportation Commission, and individual reports. Therefore, it is possible, indeed likely, that the compilation is not complete. The approach we took was in two phases. We first reviewed reports, dating back to October 1995, concerning utility market based rate, retail access, or quasi-wholesale access efforts. These included trade press reports (e.g., Clearing Up), local press, regulatory proceedings, and the testimony of several utilities at a recent hearing before the House Energy and Utilities Committee.

Energy Policy staff followed up each such report with a phone call to the utility. We had a phone or personal conversation with all eleven utilities that were reported as negotiating, considering, or implementing market-based rates or retail access. While no utility specifically asked us to keep the results of the conversations confidential, we made an internal decision to summarize the results of the conversations in order to avoid singling out particular utilities or customers for attention. However, since the reports of market-based rates all originated in the press or other public reports, they can be easily verified through the same means we used.

For each utility offering market-based rates, we asked a number of questions. These included:

- the total load eligible for the rates,
- eligibility criteria
- number of end users currently taking advantage of the program;
- pricing of the energy (commodity) component of service;
- who was providing the energy service;
- pricing of the access or distribution fee; and
- the components of the access fee.

Compilation Results

Profile of utilities offering market based rates

Of the eleven utilities contacted by Energy Policy staff, ten confirmed that they were offering market-based rates, quasi-wholesale access, or direct access. The eleventh utility did not meet the definitions set out above.

Six of the utilities offering market-based rates congregate in the I-5 corridor, with the remaining four spread throughout the state. Two are privately owned utilities, and eight publicly owned. Size and resource mix were not clear identifying factors. However, the presence of large industrial load was clearly common to all ten.

All eight publicly owned utilities were taking advantage of diversification opportunities provided by BPA, in its recent round of power sales contract negotiations, to make market based rates available. That is, utilities who chose to diversify 10 percent, 15 percent or more of their load off BPA chose to use those options to gain access to the market directly on behalf of their eligible customers. This fact becomes important when we consider the likelihood of expanding retail access to other end use customer classes.

Eligibility criteria

All ten utilities currently offer market-based rates only to large industrial customers. Five of these offered rates based on a minimum size, which ranged from .75 average megawatts (aMW) load to 10 aMW. The other five negotiated rates with individual large customers. The total eligible load among the ten utilities is about 1,005 aMW. Of these, a small amount (24 aMW) represents direct access eligibility; about 20 aMW eligibility for quasi-wholesale transactions; and the remainder is "virtual" direct access.

Two utilities are actively considering expanding eligibility to other classes early in 1997. If this occurs, total eligible load will grow about 1,080 aMW, for a total of 2,165.(1) Of this incremental amount, about 380 aMW would be virtual direct access and about 800 aMW would be direct access.

Load currently on market-based rates

At least 600 aMW of load were actually taking advantage of market-based rates as of the times of the telephone contacts (early to late October 1996). It is likely that the number has grown since then. The total number of customers who have signed on is about 30. Thus, the average size of the subscribing customers' market-priced load is about 20 aMW.

Basis for determining energy component of rate

Of the ten utilities with programs, seven base the energy component of the price on actual contracts negotiated with other utilities, brokers, or marketers. These contracts could be negotiated by the end use customer, by the utility, or jointly. The other three utilities base the energy component of the rate on an index -- either California-Oregon Border (COB), or the Dow Jones mid-Columbia index.

Basis for determining access fee

All ten utilities charge an access fee, distribution fee, or the like to cover distribution costs. Here we found a very large disparity among utilities in how they calculated and priced this service. The range of access fees is from 2 mills to over 22 mills. The disparity was generally, but not exclusively, related to the types of services included in the access fee. Because of the disparity, and its implications, we will discuss this aspect of the rate in some detail.

The most "bare bones" access fee simply charges for the actual wires maintenance cost to serve the individual eligible customer. Since many of these customers own their own facilities and are in close proximity to BPA transmission, the resulting access fee is small indeed, on the range of two mills.

In the next range of access fee prices are utilities that average the cost of wires to serve eligible customers, regardless of their actual individual cost. Utilities using this method generally charge about four mills, but the charges range as high as 12 mills.

The next grouping are utilities that include components of fixed cost in the access fee. These could include administration and general expenses, dues, power management, etc.

In addition to including non-power related fixed costs in the access fee, one utility is recovering some or all over-market (i.e., stranded) power costs in the fee.

Finally, two utilities explicitly recover some demand side management (DSM) program, renewables, and low income support costs in the access fee. But one of these is recovering only debt costs associated with recovering the cost of existing DSM installations, not the cost of running any ongoing or new programs. Only one of the ten utilities charges an access fee that explicitly covers DSM and low income support, based on an estimate of future utility commitment to these programs.

Three utilities used a "tops down" approach for calculating the access fee. That is, they removed the energy component of an existing tariff and used the remaining portion of the rate as a reasonable proxy for the utility's core distribution services. Under this approach, the resulting access fee represents the average historic utility cost of providing all but commodity services. Thus, it likely includes components of all the applicable costs and services described in the previous paragraphs, at the utilities' historic levels. One should not conclude, however, that this means DSM, renewables and low income support are at historic levels for these utilities. Publicly owned utilities historically paid for most DSM and renewables via BPA rates. Since BPA's funding has dropped significantly, utilities that are charging only their own historic levels have not picked up any regional responsibility for continued DSM and renewables support.

Finally, taxes are not included in any utility's access fee, but are added onto the rate as a separate charge.

The following table summarizes the types of costs that are included in the access fee, and how many utilities include these costs. (2)

Costs and Services Covered	Number of Utilities
"Top down"—all historic services at historic levels	3
Wires and facilities	
Per customer	2
Averaged for class or all classes	4
Administrative and general	6
Stranded cost	1
Demand side management, renewables, low income	
Historic levels	1
Budget based	1

Conclusions

More work and research needs to be done before drawing many firm conclusions from this compilation. As noted, it is not comprehensive nor statistically significant. Other utilities will no doubt use the examples of these pioneers in designing their own programs. However, the compilation does allow us to make some observations that could be useful to the Steering Committee as it enters the next phase of the Comprehensive Review.

First - retail competition is alive and well in Washington State. A recommendation to "prepare for retail competition" some time around the turn of century ignores the fact that it has already occurred here.

Second - we congratulate the utilities for their imaginative and innovative efforts to tailor their service to the needs of their customers. We believe that the ability of customers to get the type of service they want, negotiate the amount of price risk they want to assume, and undertake some of the power acquisition responsibilities on their own is where the true benefits of retail competition are strongest. Utilities and end users alike will benefit from the experimentation and variety of approaches employed in these early efforts.

Third - utilities are currently offering market-based rates or retail access only to large industrial customers (although two utilities plan to expand choice to other classes in the near future). The extent to which significant retail competition will be meaningful for significant numbers of commercial and residential customers is unclear. This is particularly true of utilities historically dependent on Bonneville Power Administration (BPA). Under the just-completed power sales contract renegotiations, BPA only allowed a portion of load to diversify without paying an exit fee. Once those diversification benefits are passed along to some end use customers, there is a limited amount left for other classes. Some of the utilities included in the compilation passed along 100 percent of diversification benefits to industrial load. Others have retained a portion for their remaining classes. Without resolution of BPA's stranded cost problems, utilities may not be able to expand retail access programs to additional existing customers.

Retail competition should offer benefits to all classes, not just large industrial customers. The Steering Committee needs to devise means to ensure that this can be achieved, in face of concerns over stranded cost recovery. As an agency with particular responsibilities for ensuring that low income customers can afford basic energy services, we are especially concerned about potential negative impacts of retail competition on those least able to take advantage of it.

Fourth - the results of the compilation demonstrate that the Steering Committee's proposed funding mechanism for public purposes is not endorsed by utilities in Washington. Only one utility of the ten we interviewed has made a commitment to funding public purpose budgets via an access fee that applies to customers with market-based rates. Nearly half of the utilities fund no public purposes at all through access fees, and five continue funding at their own historic levels. This does not include making up for reductions in BPA funding for these programs. Of the ten utilities, only one is charging customers with market-based rates an access fee that would cover a three percent energy services revenue commitment to public purposes. This implies that funding levels will either fall significantly short of the three percent of energy revenues recommended in the Draft report, or remaining classes will pick up a disproportionate burden.

As a related issue, some of the utilities we contacted did not understand that the three percent funding mechanism was intended to cover revenues from all energy services, not just utility revenues. As utilities move towards true retail access (where they do not provide, or recover costs from, energy-based services), their own revenues will likely drop significantly. Some expressed reluctance to collect an amount that is based on cost of energy services provided by another provider. Yet the Steering Committee's recommendation explicitly includes three percent of all energy service revenues, not just utility-provided service.

Fifth - and finally, the vast disparity among access fees charged by utilities is potentially alarming. The disparity is due largely, but not exclusively, to the types of services and costs included in the access fee. To the extent that some of these costs are fixed, and are not recovered by one class of customers, the disparity between industrial rates and other class rates will increase. When the disparity is wider for some utilities than for others, there is a potential for instability and customer dissatisfaction.

Notes

(1) These estimates are based on reported 1994 load for these two utilities. The actual eligible load may vary.

(2) For the purposes of this chart, one utility was considered to have two distinct programs. The first, available only to large industrial classes, charged only a wires and facilities charge. The second, available to all other classes, used a "tops down" approach.